

**CITY OF AVOCA  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2016**



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**CITY OF AVOCA**  
**OFFICIALS**  
**(Before January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jennie Maasen	Mayor	January 2016
David McCain	Mayor Pro-Tem/Council Member	January 2018
Steven Kerr	Council Member	January 2018
Robert McCarthy	Council Member	January 2016
Roxanne Plymale	Council Member	January 2018
Sandy Petersen	Council Member	January 2016
Clint Fichter	City Manager	Indefinite
Teresa Hoepner	City Clerk	Indefinite
Teresa Hoepner	City Treasurer	Appointed yearly
David Larson	City Attorney	Indefinite

**(After January 2016)**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jerry Espeseth	Mayor	January 2018
Fred Miller III	Mayor Pro-Tem/Council Member	January 2020
Lori Hansen	Council Member	January 2020
David McCain	Council Member	January 2018
Steven Kerr	Council Member	January 2018
Derek Knop	Council Member	January 2018
Clint Fichter	City Manager	Indefinite
Teresa Hoepner	City Clerk	Indefinite
Teresa Hoepner	City Treasurer	Appointed yearly
David Larson	City Attorney	Indefinite



# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 25, 2017

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

### Independent Auditor's Report

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#### Licensed In:

Iowa  
Missouri

To the Honorable Mayor and  
Members of the City Council:

#### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Continued . . .

January 25, 2017

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### Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Continued . . .



January 25, 2017

Page Three

### Other Matters

#### *Supplementary and Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Avoca's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the years ended June 30, 2015, 2014, 2013 and are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information, the Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pensions Liability and the Schedule of the City Contributions on pages 7 through 12 and 38 through 42, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

### Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 25, 2017 on my consideration of the City of Avoca's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Avoca's internal control over financial reporting and compliance.

 M. J. Murphy Associates, CPA, P.C.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Avoca provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2016 FINANCIAL HIGHLIGHTS**

Receipts of the City's governmental activities increased 11%, or approximately \$444,000 from fiscal year 2015 to fiscal year 2016. Note proceeds increased approximately \$771,000 and grants, contributions and restricted interest decreased approximately \$232,000.

Disbursements of the City's governmental activities increased 2.7%, or approximately \$114,000 from fiscal year 2015 to fiscal year 2016. Debt service increased approximately \$725,000, community and economic development increased approximately \$362,000, and capital projects decreased approximately \$1.1 million.

The City's total cash basis net position increased 16.7%, or approximately \$411,000, from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$423,000 and the cash basis net position of the business type activities decreased approximately \$12,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These funds focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, increasing from \$1.96 million to \$2.38 million, approximately. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities			
		Year Ended June 30,	
		2016	2015
Receipts:			
Programs receipts:			
Charges for service	\$	660,534	\$ 963,423
Operating grants, contributions and restricted interest		399,468	297,436
Capital grants, contributions and restricted interest		198,761	532,741
General Receipts:			
Property tax		457,725	422,299
Tax increment financing		910,479	921,991
Local option sales tax		232,253	242,624
Hotel/Motel tax		113,107	96,965
Miscellaneous		-0-	-0-
Unrestricted investment earnings		4,460	6,901
Sales of assets		236,816	56,294
Note proceeds		1,285,760	514,803
Total receipts		4,499,363	4,055,477
Disbursements:			
Public safety		554,114	261,361
Public works		318,343	492,924
Health and social services		31,655	10,821
Culture and recreation		667,811	644,946
Community and economic development		580,002	217,576
General government		342,245	323,011
Debt service		1,229,053	503,015
Capital projects		633,638	1,788,863
Total disbursements		4,356,861	4,242,517
Change in cash basis net position before transfers		142,502	(187,040)
Transfers, net		280,838	389,995
Change in cash basis net position		423,340	202,955
Cash basis net position beginning of year		1,961,826	1,758,871
Cash basis net position end of year	\$	2,385,166	\$ 1,961,826

The City's total receipts for governmental activities increased 11%, or approximately \$444,000. The total cost of all programs and services increased approximately \$114,000, or 2.7%, with no new programs added this year. The increase in receipts was primarily the result of loan proceeds for the Housing Revolving Loan.

The cost of all governmental activities this year was approximately \$4.3 million compared to approximately \$4.2 million last year. However, as shown in the Statement of Activities and Net Position on pages 14 - 15, the amount taxpayers ultimately financed for these activities was approximately \$3.2 million because some of the cost was paid by those directly benefiting from the programs (approximately \$660,500) and by other governments and organizations (approximately \$598,000). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the city's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$1.8 million to approximately \$1.3 million, principally due to receiving grant proceeds in the prior fiscal year.

Total business type activities receipts for the fiscal year were approximately \$728,000 compared to approximately \$803,000 last year. This decrease was due primarily to the receipt of insurance proceeds of \$114,000 in the prior fiscal year. The cash balance decreased approximately \$12,000 from the prior year. Total disbursements and transfers to governmental funds for the fiscal year decreased 4% to approximately \$741,000.

Changes in Cash Basis Net Position of Business Type Activities		
	Year Ended June 30,	
	2016	2015
Receipts:		
Programs receipts:		
Charges for service:		
Water	\$ 400,932	\$ 385,427
Sewer	327,451	303,363
General receipts:		
Other general receipts	-0-	114,529
Total receipts	<u>728,383</u>	<u>803,319</u>
Disbursements:		
Water	263,272	187,644
Sewer	196,566	197,306
Total disbursements	<u>459,838</u>	<u>384,950</u>
Change in cash basis net position before transfers	268,545	418,369
Transfers, net	<u>(280,838)</u>	<u>(389,995)</u>
Change in cash basis net position	(12,293)	28,374
Cash basis net position beginning of year	<u>503,508</u>	<u>475,134</u>
Cash basis net position end of year	<u>\$ 491,215</u>	<u>\$ 503,508</u>

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Avoca completed the year, its governmental funds reported a combined fund balance of \$1,961,828, an increase of approximately \$203,000 above last year's total of \$1,758,873. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$265,163 from the prior year to \$785,252. Other financing sources provided the cash increase. Receipts decreased slightly, disbursements decreased significantly. General Fund cash balance accounts for approximately 33% of the City's governmental cash.

The Special Revenue Fund, Urban Renewal Tax Increment Fund was established to account for major urban renewal projects within the City. During the fiscal year, the cash balance decreased \$49,240 to \$-0-. Receipts of \$962,041 and disbursements of \$1,011,281 were used in various construction and refurbishing projects within the urban renewal areas.

The Debt Service Fund balance increased to \$14,937 from the prior fiscal year. Receipts include property taxes of \$80,315, loan proceeds of \$848,610 and inter-fund transfers of \$335,863. Principal and interest disbursements totaled \$1,229,053.

The Capital Projects Funds account for the Housing Assistance Program and Urban Renewal Capital Projects projects in various areas of the City. Resources of approximately \$675,000 include proceeds on the sale of real estate, loan proceeds, and transfers from other funds.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

The Enterprise Fund, Water Fund cash balance increased \$38,824 to \$164,156, primarily due to a 4.0% increase in receipts and a 1.5% decrease in disbursements and transfers.

The Enterprise Fund, Sewer Fund cash balance decreased \$51,117 to \$327,059, primarily due to insurance proceeds received in the prior year.

## **BUDGETARY HIGHLIGHTS**

The City adopted its budget on March 10, 2015 and amended its budget on May 24, 2016.

The City's receipts were approximately \$484,000 less than budgeted. The City's disbursements were approximately \$7,700 more than budgeted. The City had sufficient cash balances to absorb these additional costs and increased its net cash position by approximately \$167,000 over the budget.

Actual disbursements exceeded budgeted amounts in the public safety function.





## DEBT ADMINISTRATION

At June 30, 2016, the City had \$5,380,957 of bonds, notes and other long-term debt outstanding, compared to \$5,312,375 last year, as shown below.

Outstanding Debt at Year-End			
		June 30,	
		2016	2015
General obligation bonds and notes	\$	3,198,142	\$ 3,106,980
Revenue bonds and notes		2,182,815	2,205,395
	\$	5,380,957	\$ 5,312,375

Debt increased as a result of the issuance of a Housing Revolving Loan and the refinancing of five notes and accrued interest with a local bank. The City issued \$407,609 of new debt, refinanced \$2,082,543 of outstanding debt and accrued interest, and retired principal of \$1,207,484, and paid interest of \$225,903. The Debt Service Fund ended the fiscal year with a cash balance of \$14,937.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation of \$3,198,142 is significantly below its constitutional debt limit of approximately \$4.5 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Avoca's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is completion of various City projects and the availability of federal, state and local grants, debt and tax increment financing.

These factors were taken into account when adopting the budget for fiscal year 2017. Amounts available for appropriation in the operating budget are approximately \$4.2 million, a decrease of 19% under the fiscal year 2016 budget. Budgeted disbursements are expected to decrease approximately \$656,000. If these amounts are realized, budgeted cash balances are expected to increase by approximately \$98,000 by the close of fiscal year 2017.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Clint Fichter, City Manager, or Teresa Hoepner, City Clerk, 201 N Elm St, Avoca Iowa 51521.



## **BASIC FINANCIAL STATEMENTS**

**CITY OF AVOCA**  
**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 554,114	\$ 54,880	\$ 63,016	\$ -0-
Public works	318,343	157,595	209,025	94,890
Health and social services	31,655	-0-	-0-	-0-
Cultures and recreation	667,811	416,272	45,330	103,871
Community and economic development	580,002	-0-	-0-	-0-
General government	342,245	31,787	79,115	-0-
Debt service	1,229,053	-0-	2,982	-0-
Capital projects	633,638	-0-	-0-	-0-
Total governmental activities	4,356,861	660,534	399,468	198,761
Business type activities:				
Water	263,272	400,932	-0-	-0-
Sewer	196,566	327,451	-0-	-0-
Total business type activities	459,838	728,383	-0-	-0-
Total	\$ 4,816,699	\$ 1,388,917	\$ 399,468	\$ 198,761

Property taxes levied for:  
General purposes  
Debt service  
Tax increment financing  
Local option sales tax  
Other tax  
Unrestricted investment earnings  
Miscellaneous  
Sale of assets  
Note proceeds  
Transfers  
Total general receipts

Change in cash basis net position

Cash basis net position, beginning of year

Cash basis net position, end of year

**Cash basis net position**

Nonexpendable  
Cemetery perpetual care  
Expendable:  
Streets  
Debt service  
Other purposes

Unrestricted

**Total cash basis net position**

See notes to financial statements.

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Position</u>					
<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
\$	(436,218)	\$	-0-	\$	(436,218)
	143,167		-0-		143,167
	(31,655)		-0-		(31,655)
	(102,338)		-0-		(102,338)
	(580,002)		-0-		(580,002)
	(231,343)		-0-		(231,343)
	(1,226,071)		-0-		(1,226,071)
	(633,638)		-0-		(633,638)
	<u>(3,098,098)</u>		<u>-0-</u>		<u>(3,098,098)</u>
	-0-		137,660		137,660
	<u>-0-</u>		<u>130,885</u>		<u>130,885</u>
	<u>-0-</u>		<u>268,545</u>		<u>268,545</u>
	(3,098,098)		268,545		(2,829,553)
	380,392		-0-		380,392
	77,333		-0-		77,333
	910,479		-0-		910,479
	232,253		-0-		232,253
	113,107		-0-		113,107
	4,460		-0-		4,460
	-0-		-0-		-0-
	236,816		-0-		236,816
	1,285,760		-0-		1,285,760
	280,838		(280,838)		-0-
	<u>3,521,438</u>		<u>(280,838)</u>		<u>3,240,600</u>
	423,340		(12,293)		411,047
	<u>1,961,826</u>		<u>503,508</u>		<u>2,465,334</u>
\$	<u>2,385,166</u>	\$	<u>491,215</u>	\$	<u>2,876,381</u>
\$	127,850	\$	-0-	\$	127,850
	99,516		-0-		99,516
	14,937		40,780		55,717
	1,416,394		-0-		1,416,394
	726,469		450,435		1,176,904
\$	<u>2,385,166</u>	\$	<u>491,215</u>	\$	<u>2,876,381</u>

**CITY OF AVOCA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

	General	Special Revenue	Urban Renewal Tax Increment	Library Trust	Debt Service
Receipts:					
Property tax	\$ 236,590	\$ -0-	\$ -0-	\$ 77,333	
Tax increment financing	-0-	910,479	-0-	-0-	
Other city tax	116,728	-0-	-0-	-0-	
Licenses and permits	22,735	-0-	-0-	-0-	
Use of money and property	21,933	-0-	3,757	-0-	
Intergovernmental	101,932	-0-	2,385	2,982	
Charges for service	434,202	-0-	-0-	-0-	
Special assessments	3,933	39,562	-0-	-0-	
Miscellaneous	175,901	-0-	-0-	-0-	
Total receipts	<u>1,113,954</u>	<u>950,041</u>	<u>6,142</u>	<u>80,315</u>	
Disbursements:					
Operating:					
Public safety	234,101	-0-	-0-	-0-	
Public works	280,880	-0-	-0-	-0-	
Health and social services	31,655	-0-	-0-	-0-	
Culture and recreation	578,628	-0-	689	-0-	
Community and economic development	45,466	211,571	-0-	-0-	
General government	271,317	-0-	-0-	-0-	
Debt service	-0-	-0-	-0-	1,229,053	
Capital projects	-0-	-0-	-0-	-0-	
Total disbursements	<u>1,442,047</u>	<u>211,571</u>	<u>689</u>	<u>1,229,053</u>	
Excess (deficiency) of receipts over (under) disbursements	(328,093)	738,470	5,453	(1,148,738)	
Other financing sources (uses):					
Sale of assets	126,816	-0-	-0-	-0-	
Note proceeds	29,541	-0-	-0-	848,610	
Operating transfers in	529,899	12,000	-0-	335,863	
Operating transfers out	(93,000)	(799,710)	(3,899)	-0-	
Total other financing sources (uses)	<u>593,256</u>	<u>(787,710)</u>	<u>(3,899)</u>	<u>1,184,473</u>	
Net change in cash balances	265,163	(49,240)	1,554	35,735	
Cash balances, beginning of year	<u>520,089</u>	<u>49,240</u>	<u>567,748</u>	<u>(20,798)</u>	
Cash balances, end of year	\$ <u>785,252</u>	\$ <u>-0-</u>	\$ <u>569,302</u>	\$ <u>14,937</u>	
<b>Cash Basis Fund Balances</b>					
Nonspendable - Cemetery perpetual care	\$ -0-	\$ -0-	\$ -0-	\$ -0-	
Restricted for:					
Streets	-0-	-0-	-0-	-0-	
Debt service	-0-	-0-	-0-	14,937	
Other purposes	43,026	-0-	569,302	-0-	
Unassigned	742,226	-0-	-0-	-0-	
Total cash basis fund balances	\$ <u>785,252</u>	\$ <u>-0-</u>	\$ <u>569,302</u>	\$ <u>14,937</u>	

See notes to financial statements.

EXHIBIT B

Capital Projects		Other Non-major Governmental Funds		Total
Housing	Urban Renewal Capital Projects			
\$ -0-	\$ -0-	\$ 143,802	\$	457,725
-0-	-0-	-0-		910,479
-0-	-0-	232,253		348,981
-0-	-0-	-0-		22,735
-0-	-0-	3,295		28,985
-0-	-0-	409,217		516,516
-0-	-0-	-0-		434,202
-0-	-0-	-0-		43,495
-0-	-0-	37,768		213,669
-0-	-0-	826,335		2,976,787
-0-	-0-	320,013		554,114
-0-	-0-	37,463		318,343
-0-	-0-	-0-		31,655
-0-	-0-	88,494		667,811
315,000	-0-	7,965		580,002
-0-	-0-	70,928		342,245
-0-	-0-	-0-		1,229,053
132,870	224	500,544		633,638
447,870	224	1,025,407		4,356,861
(447,870)	(224)	(199,072)		(1,380,074)
110,000	-0-	-0-		236,816
313,102	-0-	94,507		1,285,760
-0-	251,871	938,891		2,068,524
-0-	(12,000)	(879,077)		(1,787,686)
423,102	239,871	154,321		1,803,414
(24,768)	239,647	(44,751)		423,340
421,211	-0-	424,336		1,961,826
\$ 396,443	\$ 239,647	\$ 379,585		2,385,166
\$ -0-	\$ -0-	\$ 127,850	\$	127,850
-0-	-0-	99,516		99,516
-0-	-0-	-0-		14,937
396,443	239,647	167,976		1,416,394
-0-	-0-	(15,757)		726,469
\$ 396,443	\$ 239,647	\$ 379,585	\$	2,385,166





## CITY OF AVOCA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 378,439	\$ 327,451	\$ 705,890
Miscellaneous	4,752	-0-	4,752
Total operating receipts	383,191	327,451	710,642
Operating disbursements:			
Business type activities	178,265	70,030	248,295
Total operating disbursements	178,265	70,030	248,295
Excess of operating receipts over operating disbursements	204,926	257,421	462,347
Non-operating receipts (disbursements):			
Meter deposits	16,800	-0-	16,800
Meter deposit refunds	(4,209)	-0-	(4,209)
Debt service	(80,798)	(126,536)	(207,334)
Miscellaneous	941	-0-	941
Net non-operating receipts (disbursements)	(67,266)	(126,536)	(193,802)
Excess of receipts over disbursements	137,660	130,885	268,545
Operating transfers out	(98,836)	(182,002)	(280,838)
Change in cash balance	38,824	(51,117)	(12,293)
Cash balances, beginning of year	125,332	378,176	503,508
Cash balances, end of year	\$ 164,156	\$ 327,059	\$ 491,215
<b>Cash Basis Fund Balances</b>			
Restricted – debt service	\$ -0-	\$ 40,780	\$ 40,780
Unrestricted	164,156	286,279	450,435
Total cash basis fund balances	\$ 164,156	\$ 327,059	\$ 491,215

See notes to financial statements.



## **NOTES TO FINANCIAL STATEMENTS**



**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies**

The City of Avoca is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general administrative services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Avoca has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

**B. Basis of Presentation**

**Government-wide Financial Statements** - The Statement of Activities and Net Position reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation - Continued**

The Cash Basis Statement of Activities and Net Position presents the City's non-fiduciary net position. Net position is reported in the following categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provision or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation - Continued**

**Special Revenue:**

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Library Trust Fund is used to account for the investments and related activity of the Library Trust.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is used to account for the payment of interest and principal on the city's general long-term debt.

The Capital Projects Fund is used to account for construction projects of the City.

**The City reports the following major proprietary funds:**

The Enterprise, Water Fund accounts for the operation and maintenance of the City's waterworks system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Avoca maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(1) Summary of Significant Accounting Policies (Continued)**

C. Measurement Focus and Basis of Accounting (Continued)

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. As of June 30, 2016, disbursements exceed amounts budgeted in the public safety function.



**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(2) Cash and Pooled Investments**

The City's deposits in bank at June 30, 2016, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions and two managed accounts in the City's name totaled \$2,876,381 as of June 30, 2016.

At June 30, 2016, the City had the following investments:

Investment	Carrying Amount	Fair Value	Maturity
Goldman Sachs Bank USA			
New York, NY Certificate of Deposit	\$ 50,003	\$ 50,112	August 7, 2017
GE Capital Retail Bank			
Draper, UT, Certificate of Deposit	48,001	48,067	March 21, 2017
Goldman Sachs Bank USA			
New York, NY Certificate of Deposit	45,003	45,171	March 26, 2018
PCCF Library Endowment Trust Fund	113,335	113,046	NA
PCCF Cemetery Fund	78,192	85,835	NA
PCCF Perpetual Care Fund	49,701	53,696	NA
PCCF Public Library Fund	<u>268,707</u>	<u>295,474</u>	NA
Total	\$ <u>652,942</u>	\$ <u>691,401</u>	

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity of general obligation bonds and notes, revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds and Notes		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 689,391	\$ 97,619	\$ 145,630	\$ 59,046	\$ 835,021	\$ 156,665
2018	362,239	75,342	147,610	54,406	509,849	129,748
2019	373,232	64,382	154,641	49,715	527,873	114,097
2020	307,834	52,357	81,727	44,779	389,561	97,136
2021	305,162	42,916	83,867	42,639	389,029	85,555
2022	290,000	33,561	86,064	40,442	376,064	74,003
2023	300,000	24,609	88,318	38,188	388,318	62,797
2024	295,000	15,684	90,633	35,873	385,633	51,557
2025	185,000	6,864	93,008	33,498	278,008	40,362
2026	90,284	1,354	95,446	31,060	185,730	32,414
2027	-0-	-0-	97,947	28,559	97,947	28,559
2028	-0-	-0-	100,516	25,990	100,516	25,990
2029	-0-	-0-	103,151	23,355	103,151	23,355
2030	-0-	-0-	105,857	20,649	105,857	20,649
2031	-0-	-0-	107,472	17,872	107,472	17,872
2032	-0-	-0-	83,788	15,023	83,788	15,023
2033	-0-	-0-	85,883	12,928	85,883	12,928
2034	-0-	-0-	88,030	10,781	88,030	10,781
2035	-0-	-0-	90,230	8,581	90,230	8,581
2036	-0-	-0-	92,486	6,325	92,486	6,325
2037	-0-	-0-	94,798	4,013	94,798	4,013
2038	-0-	-0-	65,713	1,642	65,713	1,642
Total	\$ 3,198,142	\$ 414,688	\$ 2,182,815	\$ 605,364	\$ 5,380,957	\$ 1,020,052

The Code of Iowa requires that principal and interest on general obligation bonds and notes be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$4.5 million which was not exceeded during the year ended June 30, 2016.

General Obligation Corporate Purpose and Refunding Bonds, Series 2009

On May 1, 2009, the City issued bonds to finance water projects and to refund a prior bond issue. The \$1,450,000 bonds bore interest ranging from 1.75% to 4.60%, required semiannual installments of interest and annual retirement of bonds (ranging from \$75,000 to \$110,000 annually), and were scheduled to mature June 1, 2024. The bonds were called effective June 1, 2016 and retired in full June 21, 2016.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(3) Bonds and Notes Payable (Continued)**

General Obligation Ambulance Note, 2012

On April 23, 2012, the City financed the purchase of an ambulance with a local bank. The \$175,000 note bears interest at 5.00%, required semiannual installments of \$39,866, and was scheduled to mature July 1, 2017. The note was refinanced in November 2015.

General Obligation School Area Street and Storm Sewer Project Note, 2012

On January 20, 2012, the City entered into two loan agreements with a local bank for the School Area Street and Storm Sewer Project. Two notes of \$250,000 each bore interest at 3.20% and 3.26%, respectively. Each note required annual principal payments of \$35,714, plus applicable interest semiannually, and were scheduled to mature December 1, 2018. The notes were refinanced in November 2015.

General Obligation Side Walk Repair Note, 2012

On February 23, 2012, the City entered into a loan agreement with a local bank to finance the Side Walk Repair Project. The \$150,000 note bears interest at 3.42%, requires annual principal payments of \$18,750, plus applicable interest semiannually, and matures December 1, 2019.

General Obligation Corporate Purpose Revolving Note, 2014

On March 1, 2014, the City entered into a revolving loan agreement with a local bank for sidewalk improvements. The \$155,000 note bears interest at 4.50%, requires periodic payments of principal and interest, and matures June 1, 2021.

Housing Revolving Loan, 2016

On June 21, 2016, the City entered into a loan agreement with a local bank to finance the City's housing assistance program. The \$700,000 loan, of which \$313,102 was received during fiscal year 2016, bears interest at 3.50% and matures June 21, 2017.

Essential Corporate Purpose Loan, 2016

On November 25, 2015, the City entered into a loan agreement with a local bank to refinance the Refunding Bonds, the Ambulance Note, the Revolving Note, and the School Area Streets & Storm Sewer Notes. The loan bears interest at 3.00%, requires semi-annual principal and interest installments, and matures December 1, 2025.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(3) Bonds and Notes Payable (Continued)**

Water Revenue Bonds, Series 2010

On June 1, 2010, the City issued \$600,000 of bonds to finance improvements to the waterworks. The bonds bear interest ranging from 2.00% to 3.80%, require annual principal and semi-annual interest installments ranging from \$77,850 to \$80,270 and mature June 1, 2019. The bonds are callable at par after June 1, 2016.

Storm Water Revenue USDA Rural Development Note, 2010

On December 30, 2010, the City financed storm water improvements with a \$412,000 note with USDA Rural Development. The note bears interest at 3.00%, requires annual installments of principal and interest of \$27,695, and matures December 1, 2030.

Sanitary Sewer Revenue USDA Rural Development Note, 2011

On August 2, 2011, the City entered into a loan agreement with USDA Rural Development to finance improvements to the sanitary sewer system. The note of \$1,767,000 bears interest at 2.50%, requires annual installments of \$98,811 principal and interest, and matures June 1, 2036.

Revenue Note Resolutions

The resolutions providing for the issuance of the USDA Rural Development notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to separate revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c) Additional monthly transfers shall be made to separate reserve accounts within the Enterprise Funds for the purpose of paying for any additional improvements, extensions or repairs to the system.

At June 30, 2016, the City was not in compliance with the provisions of the USDA Rural Development notes. However, the sinking and reserve accounts were established after June 30, 2016.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(4) Pension and Retirement Benefits**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employee's Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary except members with service before June 30, 2012 will use the highest three-year average salary as of that date will be used if it is greater than the highest five-year salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. For service earned before and after July 1, 2012, the early-retirement reduction is calculated differently. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(4) Pension and Retirement Benefits (Continued)**

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contributions rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$44,707.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$245,878 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.03295%, which was an increase of 0.000431 from its proportion measured as of June 30, 2014.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(4) Pension and Retirement Benefits (Continued)**

For the year ended June 30, 2016 the City pension expense, deferred outflows and deferred inflows totaled \$24,983, \$60,165 and \$78,408, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation And 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(4) Pension and Retirement Benefits (Continued)**

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$486,739	\$245,878	\$42,645

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 8 active and -0- retired members in the plan.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$278 for single coverage and \$1,230 for family coverage. For the year ended June 30, 2016, the City contributed \$151,639 and plan members eligible for benefits contributed \$-0- to the plan.



**CITY OF AVOCA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick time termination payments payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2016</u>
Vacation	\$ 13,948
Sick time	40,739
	<u>\$ 54,687</u>

This liability has been computed based on rates of pay in effect at June 30, 2016.

**(7) Related Party Transactions**

The City had business transactions between the City and City officials totaling \$20,159 during the year ended June 30, 2016.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016, is as follows:

Transfer to	Transfer from	Amount
General	Library Trust	\$ 3,899
General	Local Option	208,000
General	Road Use	158,000
General	Water	80,000
General	Sewer	80,000
Employee Benefits	Urban Renewal	70,000
Employee Benefits	Road Use Tax	50,000
Urban Renewal	Capital Project – Urban Renewal	12,000
Fire Reserve	Urban Renewal	80,000
Fire Reserve	General	93,000
Debt Service	Urban Renewal	298,025
Debt Service	Water	18,836
Debt Service	Sewer	19,002
Capital Project – 2015 Street Project	Capital Project - Streetscape	190,513
Capital Project – Curtis Street	Capital Project - Streetscape	2,000
Capital Project – Curtis Street	Urban Renewal	100,000
Capital Project - Park	Capital Project - Streetscape	52,531
Capital Project – 2014 Street Project	Capital Project - Streetscape	10,033
Capital Project – 2014 Street Project	Urban Renewal	207,814
Capital Project – Urban Renewal	Local Option	208,000
Capital Project – Urban Renewal	Urban Renewal	43,871
Capital Project – Sewer	Sewer	83,000
Total		\$ <u>2,068,524</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(9) Risk Management**

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the fiscal year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at the level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2016 were \$44,654.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(9) Risk Management (Continued)**

risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days prior notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workmen's compensation in the amount of \$35,551. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Deficit Balance**

Two Capital Projects Funds had a combined deficit of \$15,757. The deficit balance was the result of project costs incurred prior to availability of funds. The deficits will be eliminated by transfers from other funds.

**CITY OF AVOCA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**(11) Housing and Economic Development Program**

The City offers several housing loan programs for qualified residents and an economic development grant program for qualified small businesses. The Urban Renewal Agency serves as the review committee and City staff administers the application process. Income limits are based on the most recent Median Income Levels of the Community Development Block Grant (CDGB) program, as provided by the Iowa Economic Development Authority.

Housing Loan Programs

The New Construction Program offers 5 year forgivable loans of \$15,000 or \$7,500, depending on median income levels, and has 4 participants.

The Existing Unit Purchase Program offers 5 year forgivable loans of \$5,000 to qualified residents. There are 5 participants in the program.

The Housing Rehabilitation Loans Program offers 10 year forgivable loans of \$10,000 to owner occupied housing or 5 year forgivable loans of \$5,000 to rental housing to qualified applicants. There are 2 participants in the program.

The Dilapidated Buildings Abatement Assistance Program offers grants to property owners or nonprofit organizations to assist in acquiring and demolishing dilapidated buildings. Currently, there are no participants in this program.

Economic Development Programs

The New Construction Grant or Rebate Incentive Program offers eligible projects a grant or a rebate of taxes for a term of years.

The Improvement and Rehabilitation of Downtown Buildings (Pre-1935) Program offers architectural assistance grants for up to \$5,000 and minor restoration and improvement grants for up to \$4,000.

The Small Business Grant Program offers grants up to \$5,000 for small business start-ups, expansion and retention. There are 2 participants in this program.



## **OTHER INFORMATION**

**CITY OF AVOCA**  
**BUDGETARY COMPARISON SCHEDULE**  
**OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -**  
**BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

**OTHER INFORMATION**

**YEAR ENDED JUNE 30, 2016**

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 457,725	\$ -0-
Tax increment financing	910,479	-0-
Other city tax	348,981	-0-
Licenses and permits	22,735	-0-
Use of money and permits	28,985	-0-
Intergovernmental	516,516	-0-
Charges for services	434,202	728,383
Special assessments	43,495	-0-
Miscellaneous	213,669	-0-
Total receipts	<u>2,976,787</u>	<u>728,383</u>
Disbursements:		
Public safety	554,114	-0-
Public works	318,343	-0-
Health and social services	31,655	-0-
Culture and recreation	667,811	-0-
Community and economic development	580,002	-0-
General government	342,245	-0-
Debt service	1,229,053	-0-
Capital projects	633,638	-0-
Business type	-0-	459,838
Total disbursements	<u>4,356,861</u>	<u>459,838</u>
Excess (deficiency) of receipts over (under) disbursements	(1,380,074)	268,545
Other financing sources, net	<u>1,803,414</u>	<u>(280,838)</u>
Excess (deficiency) of receipts and other financing sources	423,340	(12,293)
Balance beginning of year	<u>1,961,826</u>	<u>503,508</u>
Balance end of year	<u>\$ 2,385,166</u>	<u>\$ 491,215</u>

See Accompanying Independent Auditor's Report.



Budgeted Amounts			Final to
Total	Original	Final	Total Variance
\$ 457,725	\$ 420,485	\$ 434,341	\$ 23,384
910,479	974,000	930,000	(19,521)
348,981	324,470	379,716	(30,735)
22,735	25,900	19,400	3,335
28,985	45,519	39,136	(10,151)
516,516	291,406	489,767	26,749
1,162,585	1,413,576	1,595,937	(433,352)
43,495	2,000	38,000	5,495
213,669	61,000	262,823	(49,154)
<u>3,705,170</u>	<u>3,558,356</u>	<u>4,189,120</u>	<u>(483,950)</u>
554,114	286,395	287,700	(266,414)
318,343	294,877	324,090	5,747
31,655	6,250	31,656	1
667,811	766,115	694,908	27,097
580,002	313,100	607,200	27,198
342,245	335,450	349,611	7,366
1,229,053	636,058	1,450,947	221,894
633,638	332,000	794,803	161,165
459,838	388,141	268,091	(191,747)
<u>4,816,699</u>	<u>3,358,386</u>	<u>4,809,006</u>	<u>(7,693)</u>
(1,111,529)	199,970	(619,886)	(491,643)
<u>1,522,576</u>	<u>100,000</u>	<u>863,609</u>	<u>658,967</u>
411,047	299,970	243,723	167,324
<u>2,465,334</u>	<u>2,465,334</u>	<u>2,465,334</u>	<u>-0-</u>
\$ <u>2,876,381</u>	\$ <u>2,765,304</u>	\$ <u>2,709,057</u>	\$ <u>167,324</u>



## **CITY OF AVOCA**

### **NOTES TO OTHER INFORMATION - BUDGETARY REPORTING**

**JUNE 30, 2016**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The budget was amended once on May 24, 2016.

For the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety function.

**CITY OF AVOCA  
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST TWO YEARS\***

**OTHER INFORMATION**

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.032950%	0.032519%
City's proportionate share of the net pension liability	\$ 245,878	\$ 207,957
City's covered-employee payroll	\$ 488,364	\$ 448,543
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	50.35%	46.36%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**CITY OF AVOCA  
SCHEDULE OF CITY CONTRIBUTIONS**

**IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FOR THE LAST TWO YEARS**

**OTHER INFORMATION**

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 44,707	\$ 41,153
Contributions in relation to the statutorily required contribution	\$ <u>44,707</u>	\$ <u>41,153</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>-0-</u>
City's covered-employee payroll	\$ 488,364	\$ 448,543
Contributions as a percentage of covered-employee payroll	9.15%	9.17%

See accompanying independent auditor's report.



## CITY OF AVOCA

### NOTES TO OTHER INFORMATION - PENSION LIABILITY

YEAR ENDED JUNE 30, 2016

#### Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

#### Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most agrees.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments.





## **SUPPLEMENTARY INFORMATION**

**CITY OF AVOCA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS**  
**AND CHANGES IN CASH BALANCES -**  
**NON-MAJOR GOVERNMENTAL FUNDS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2016**

	Special Revenue					
	Road Use Tax	Employee Benefits	Emergency	Local Option	Vets Memorial	Fire Reserve
Receipts:						
Property tax	\$ -0-	\$ 143,661	\$ 141	\$ -0-	\$ -0-	\$ -0-
Other city tax	-0-	-0-	-0-	232,253	-0-	-0-
Use of money	-0-	-0-	-0-	-0-	-0-	-0-
Intergovernmental	208,725	11,431	-0-	-0-	300	-0-
Miscellaneous	-0-	-0-	-0-	-0-	-0-	8,629
Total receipts	208,725	155,092	141	232,253	300	8,629
Disbursements:						
Operating:						
Public safety	-0-	42,074	-0-	-0-	-0-	277,939
Public works	-0-	37,332	-0-	-0-	131	-0-
Culture and recreation	-0-	87,903	-0-	-0-	-0-	-0-
Community & economic dev	-0-	7,965	-0-	-0-	-0-	-0-
General government	-0-	70,928	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-	-0-	-0-
Total disbursements	-0-	246,202	-0-	-0-	131	277,939
Excess (deficiency) of receipts over (under) disbursements	208,725	(91,110)	141	232,253	169	(269,310)
Other financing sources (uses):						
Operating transfers in	-0-	120,000	-0-	-0-	-0-	173,000
Operating transfers out	(208,000)	-0-	-0-	(416,000)	-0-	-0-
Note proceeds	-0-	-0-	-0-	-0-	-0-	-0-
Net financing sources (uses)	(208,000)	120,000	-0-	(416,000)	-0-	173,000
Net change in cash balances	725	28,890	141	(183,747)	169	(96,310)
Cash balances beginning of year	98,791	3,132	-0-	184,419	1,893	106,859
Cash balances end year	\$ 99,516	\$ 32,022	\$ 141	\$ 672	\$ 2,062	\$ 10,549
<b>Cash Basis Fund Balances</b>						
Restricted for other purposes	\$ 99,516	\$ 32,022	\$ 141	\$ 672	\$ 2,062	\$ 10,549
Unassigned	-0-	-0-	-0-	-0-	-0-	-0-
Total cash basis fund balances	\$ 99,516	\$ 32,022	\$ 141	\$ 672	\$ 2,062	\$ 10,549

See Accompanying Independent Auditor's Report.

Capital Projects						
Streetscape	2015 Street	Curtis Street	Club House	2011 Sewer	Pedestrian Bridge	
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	88,871	
-0-	-0-	-0-	18,607	-0-	10,000	
-0-	-0-	-0-	18,607	-0-	98,871	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	
34,520	28,618	10,300	18,607	114,509	134,430	
34,520	28,618	10,300	18,607	114,509	134,430	
(34,520)	(28,618)	(10,300)	-0-	(114,509)	(35,559)	
-0-	190,513	102,000	-0-	83,000	-0-	
(255,077)	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	94,507	-0-	
(255,077)	190,513	102,000	-0-	177,507	-0-	
(289,597)	161,895	91,700	-0-	62,998	(35,559)	
289,570	(161,895)	(2,000)	-0-	(78,728)	68,362	
\$ (27)	\$ -0-	\$ 89,700	\$ -0-	\$ (15,730)	\$ 32,803	
\$ 0-	\$ -0-	\$ 89,700	\$ -0-	\$ -0-	\$ 32,803	
(27)	-0-	-0-	-0-	(15,730)	-0-	
\$ (27)	\$ -0-	\$ 89,700	\$ -0-	\$ (15,730)	\$ 32,803	



SCHEDULE 1

Capital Projects		Permanent		Total
Park	2014 Streets	Perpetual Care	Cemetery Trust	
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 143,802
-0-	-0-	-0-	-0-	232,253
-0-	-0-	1,667	1,628	3,295
5,000	94,890	-0-	-0-	409,217
-0-	-0-	532	-0-	37,768
<u>5,000</u>	<u>94,890</u>	<u>2,199</u>	<u>1,628</u>	<u>826,335</u>
-0-	-0-	-0-	-0-	320,013
-0-	-0-	-0-	-0-	37,463
-0-	-0-	591	-0-	88,494
-0-	-0-	-0-	-0-	7,965
-0-	-0-	-0-	-0-	70,928
98,981	60,579	-0-	-0-	500,544
<u>98,981</u>	<u>60,579</u>	<u>591</u>	<u>-0-</u>	<u>1,025,407</u>
(93,981)	34,311	1,608	1,628	(199,072)
52,531	217,847	-0-	-0-	938,891
-0-	-0-	-0-	-0-	(879,077)
-0-	-0-	-0-	-0-	94,507
<u>52,531</u>	<u>217,847</u>	<u>-0-</u>	<u>-0-</u>	<u>154,321</u>
(41,450)	252,158	1,608	1,628	(44,751)
<u>41,477</u>	<u>(252,158)</u>	<u>48,050</u>	<u>76,564</u>	<u>424,336</u>
\$ <u>27</u>	\$ <u>-0-</u>	\$ <u>49,658</u>	\$ <u>78,192</u>	\$ <u>379,585</u>
\$ 27	\$ -0-	\$ 49,658	\$ 78,192	\$ 395,342
-0-	-0-	-0-	-0-	(15,757)
<u>\$ 27</u>	<u>\$ -0-</u>	<u>\$ 49,658</u>	<u>\$ 78,192</u>	<u>\$ 379,585</u>

**CITY OF AVOCA**  
**SCHEDULE OF INDEBTEDNESS**

**JUNE 30, 2016**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes:			
Refunding Bonds	December 1, 2009	1.75% to 4.60%	\$ 1,450,000
Ambulance Note	April 23, 2012	4.50%	\$ 175,000
Revolving Note-Capital Projects	August 27, 2012	3.25%	\$ 1,500,000
School Area Streets & Storm Sewer	January 20, 2012	3.20% & 3.26%	\$ 500,000
Sidewalk Improvement	January 20, 2012	3.42%	\$ 150,000
Revolving Note	March 1, 2014	4.50%	\$ 155,000
Housing Revolving Loan	June 21, 2016	3.50%	\$ 700,000
Essential Corporate Purpose Note	November 25, 2015	3.00%	\$ 2,951,000
Revenue Bonds and Notes:			
Water Revenue Bond	June 1, 2010	2.00% to 3.80%	\$ 600,000
Storm Water Note	December 30, 2010	3.00%	\$ 412,000
Sanitary Sewer Improvement Note	August 2, 2011	2.50%	\$ 1,767,000

See Accompanying Independent Auditor's Report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Refinanced During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 795,000	\$ -0-	\$ -0-	\$ 795,000	\$ -0-	\$ 33,380	\$ -0-
66,015	-0-	66,015	-0-	-0-	-0-	-0-
1,730,813	-0-	1,730,813	-0-	-0-	47,340	-0-
285,715	-0-	285,715	-0-	-0-	-0-	-0-
93,750	-0-	-0-	18,750	75,000	2,934	217
135,687	-0-	-0-	20,218	115,469	6,089	866
-0-	313,102	-0-	-0-	313,102	-0-	270
-0-	2,951,000	-0-	256,429	2,694,571	46,472	6,644
<u>\$ 3,106,980</u>	<u>\$ 3,264,102</u>	<u>\$ 2,082,543</u>	<u>\$ 1,090,397</u>	<u>\$ 3,198,142</u>	<u>\$ 136,215</u>	<u>\$ 7,997</u>
\$ 285,000	\$ -0-	\$ -0-	\$ 70,000	\$ 215,000	\$ 10,270	\$ 681
346,771	-0-	-0-	17,292	329,479	10,403	2,968
1,573,624	94,507	-0-	29,796	1,638,335	69,015	9,718
<u>\$ 2,205,395</u>	<u>\$ 94,507</u>	<u>\$ -0-</u>	<u>\$ 117,088</u>	<u>\$ 2,182,814</u>	<u>\$ 89,688</u>	<u>\$ 13,367</u>

**CITY OF AVOCA**  
**DEBT MATURITIES**

**JUNE 30, 2016**

General Obligation Notes and Loan

Year Ending June 30,	General Obligation Revolving Note Issued March 1, 2014		General Obligation Sidewalk Note Issued January 20, 2012	
	Interest		Interest	
	Rate	Amount	Rate	Amount
2017	4.5%	\$ 21,110	3.42%	\$ 18,750
2018	4.5%	22,060	3.42%	18,750
2019	4.5%	23,053	3.42%	18,750
2020	4.5%	24,084	3.42%	18,750
2021	4.5%	25,162	--	-0-
2022	--	-0-	--	-0-
2023	--	-0-	--	-0-
2024	--	-0-	--	-0-
2025	--	-0-	--	-0-
2026	--	-0-	--	-0-
Total		<u>115,469</u>		<u>\$ 75,000</u>

Year Ending June 30,	Housing Revolving Loan Issued June 21, 2016		Corporate Purpose Note Issued November 25, 2015		Total
	Interest	Amount	Interest	Amount	
	Rate		Rate		
2017	3.50%	\$ 313,102	3.00%	336,429	\$ 689,391
2018	--	-0-	3.00%	321,429	362,239
2019	--	-0-	3.00%	331,429	373,232
2020	--	-0-	3.00%	265,000	307,834
2021	--	-0-	3.00%	280,000	305,162
2022	--	-0-	3.00%	290,000	290,000
2023	--	-0-	3.00%	300,000	300,000
2024	--	-0-	3.00%	295,000	295,000
2025	--	-0-	3.00%	185,000	185,000
2026	--	-0-	3.00%	90,284	90,284
Total		\$ 313,102		2,694,571	\$ 3,198,142

See Accompanying Independent Auditor's Report.



SCHEDULE 3

Revenue Bonds and Notes

Year  Ending June 30,	Water Revenue Bond Issued June 1, 2010		Storm Water Note Issued December 30, 2012		Sanitary Sewer Note Issued August 2, 2011		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2017	3.80%	\$ 70,000	3.00%	\$ 17,777	2.50%	\$ 57,853	\$ 145,630
2018	3.80%	70,000	3.00%	18,311	2.50%	59,299	147,610
2019	3.80%	75,000	3.00%	18,860	2.50%	60,781	154,641
2020	--	-0-	3.00%	19,426	2.50%	62,301	81,727
2021	--	-0-	3.00%	20,009	2.50%	63,858	83,867
2022	--	-0-	3.00%	20,609	2.50%	65,455	86,064
2023	--	-0-	3.00%	21,227	2.50%	67,091	88,318
2024	--	-0-	3.00%	21,864	2.50%	68,769	90,633
2025	--	-0-	3.00%	22,520	2.50%	70,488	93,008
2026	--	-0-	3.00%	23,196	2.50%	72,250	95,446
2027	--	-0-	3.00%	23,891	2.50%	74,056	97,947
2028	--	-0-	3.00%	24,608	2.50%	75,908	100,516
2029	--	-0-	3.00%	25,346	2.50%	77,805	103,151
2030	--	-0-	3.00%	26,107	2.50%	79,750	105,857
2031	--	-0-	3.00%	25,728	2.50%	81,744	107,472
2032	--	-0-	--	-0-	2.50%	83,788	83,788
2033	--	-0-	--	-0-	2.50%	85,883	85,883
2034	--	-0-	--	-0-	2.50%	88,030	88,030
2035	--	-0-	--	-0-	2.50%	90,230	90,230
2036	--	-0-	--	-0-	2.50%	92,486	92,486
2036	--	-0-	--	-0-	2.50%	94,798	94,798
2037	--	-0-	--	-0-	2.50%	65,713	65,713
Total		\$ <u>215,000</u>		\$ <u>329,479</u>		\$ <u>1,638,336</u>	\$ <u>2,182,815</u>

## CITY OF AVOCA

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -  
ALL GOVERNMENTAL FUNDS**

**FOR THE LAST SIX YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Receipts:			
Property taxes	\$ 457,725	\$ 422,299	\$ 419,328
Tax increment financing	910,479	921,991	934,605
Other city taxes	348,981	342,931	409,885
License and permits	22,735	13,065	14,659
Use of money and property	28,985	28,750	14,758
Intergovernmental	516,516	788,597	34,976
Charges for service	1,162,585	1,478,165	1,297,462
Special assessments	43,495	42,368	2,350
Miscellaneous	<u>213,669</u>	<u>249,532</u>	<u>9,324</u>
Total	\$ <u>3,705,170</u>	\$ <u>4,287,698</u>	\$ <u>3,137,347</u>
Disbursements:			
Operating:			
Public safety	\$ 554,114	\$ 261,361	\$ 311,429
Public works	318,343	492,924	621,825
Health and social services	31,655	10,821	-0-
Culture and recreation	667,811	644,946	699,180
Comm and economic dev	580,002	217,576	616,854
General government	342,245	323,011	337,356
Debt service	1,436,387	503,015	520,533
Capital projects	633,638	1,788,863	1,420,588
Business type	<u>252,504</u>	<u>384,950</u>	<u>374,195</u>
Total	\$ <u>4,816,699</u>	\$ <u>4,627,467</u>	\$ <u>4,901,960</u>

See accompanying independent auditor's report.

<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 408,805	\$ 1,135,917	\$ 720,334
877,401	-0-	418,980
-0-	248,030	271,985
14,557	10,593	13,632
71,191	32,936	26,425
1,380,781	432,304	1,040,750
378,513	1,147,298	937,025
1,881	9,315	910
<u>283,891</u>	<u>180,868</u>	<u>94,946</u>
\$ <u>3,417,020</u>	\$ <u>3,197,261</u>	\$ <u>3,524,987</u>

\$ 202,158	\$ 393,099	\$ 187,990
710,404	594,519	300,591
-0-	6,071	-0-
738,872	670,305	619,520
483,135	407,012	676,364
277,389	247,629	235,642
2,085,936	420,416	274,630
2,859,163	1,644,889	1,046,835
<u>245,322</u>	<u>459,128</u>	<u>1,277,359</u>
\$ <u>7,602,379</u>	\$ <u>4,843,068</u>	\$ <u>4,618,931</u>



**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



# MUXFELDT

## ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 25, 2017

**Lonnie G. Muxfeldt**  
Certified Public  
Accountant

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Iowa  
Missouri

INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and  
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca, Iowa, as of and for the year ended June 30, 2016. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Avoca's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Avoca's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Avoca's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control I consider to be material weaknesses.

Continued . . .

January 25, 2017

Page Two

To the Honorable Mayor and  
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Avoca's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-16, I-B-16 and I-C-16 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Avoca's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Continued . . .



January 25, 2017

Page Three

To the Honorable Mayor and  
Members of the City Council


City of Avoca's Responses to the Findings

The City of Avoca's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Avoca's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Avoca during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

 M. L. Linsfeldt Associates, CPA, P.C.



**CITY OF AVOCA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

**I-A-16 Segregation of Duties**

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city administrator, full time city clerk, and a part time office clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response accepted.

**I-B-16 Monitoring the Budget**

Comment - Another important aspect of internal control over compliance with State law is the monitoring of the City's Budget. For the year ended June 30, 2016, disbursements materially exceeded amounts budgeted in the public safety function. This occurred when the fire department made a \$262,454 down-payment on a new fire truck and the City failed to amend the budget accordingly.

Recommendation - Personnel responsible for financial reporting such as budgets and annual financial reports should remember that capital projects funds take only the capital projects function. In this instance, a capital projects fund takes the public safety function in the annual financial report.

Response - We suspect that the budget was amended for capital projects rather than public safety. We will review procedures for greater consistency.

Conclusion - Response accepted.

**CITY OF AVOCA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**Part I: Findings Related to the Financial Statements (Continued):**

**INTERNAL CONTROL DEFICIENCIES:**

**I-C-16    Financial Reporting**

Comment - During the audit, I identified a material amount of general obligation debt that was omitted on the annual financial report. The omission appears to be an oversight.

Recommendation - Personnel should review procedures over preparing and reviewing the annual financial report to ensure the completeness of the City's financial information.

Response - We will consider this.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**CITY OF AVOCA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-16 Certified Budget - Disbursements during the year ended June 30, 2016, exceeded the amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, *Public monies may not be expended or encumbered except under an annual or continuing appropriation.*

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be monitored and amended timely in the future, if applicable.

Conclusion - Response accepted.

II-B-16 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-16 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-16 Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2016 are as follows:

Name, Title, and Business Connection	Transaction Description	Amount
J. Olesen, Park Board, Owner of Olesen Chevy-Olds, Inc.	Vehicle maintenance	\$ 3,358
Mikel Yates, son of Karla Yates, Planning & Zoning Commission	Housing rehab loan	5,191
	Concrete work	11,610
		<u>\$ 20,159</u>

**CITY OF AVOCA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**II-D-16 Business Transactions (Continued)**

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Park Board member and the son of the Planning & Zoning Commissioner do not appear to represent conflicts of interest since they were entered into through competitive bidding in accordance with Chapter 362.5(4)(d) of the Code of Iowa.

**II-E-16 Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

**II-F-16 Council Minutes** - No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of City Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. This is primarily due to the Clerk failing to get the proceedings to the publisher on a timely basis.

Recommendation - The clerk should make sure that the minutes are published within the fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Response - We will adhere to the reporting requirements of the Code of Iowa in the future.

Conclusion - Response accepted.

**CITY OF AVOCA  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2016**

**Part II: Other Findings Related to Required Statutory Reporting (Continued):**

- II-G-16 Deposits and Investments - It was noted that 22% of the City's funds are invested with institutions that are neither listed on the City's Depository Resolution nor in accordance with the provisions of the City's Investment Policy.

Recommendation - The City's current depository resolution is dated July 7, 2009 and needs updating to reflect current practices. The depository resolution must be written, approved by Council, entered on record into the minutes, each depository clearly named, and a maximum amount specified for each depository. By extension, the City's Investment Policy should be updated to reflect current practices. Public funds must be invested in accordance with written policies; i.e., the Investment Policy approved by City Council.

Response - We will update the City's Resolution naming Official Depositories and the City's Investment Policy to reflect its current investment practices.

Conclusion - Response accepted.

- II-H-16 Revenue Bonds and Notes - No instances on non-compliance with the revenue bond and note resolutions were noted.

- II-I-16 Annual Urban Renewal Report - The annual urban renewal report was approved and certified to the Iowa Department of Management on or before December 1. The report was filed November 3, 2016.

- II-J-16 Tax Increment Financing - Chapter 403.19 of the Code of Iowa provides that a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Urban Renewal Area TIF Indebtedness was certified to the County Auditor before December 1, and no exceptions were noted.

- II-K-16 Financial Condition - Two Capital Projects Funds had a combined deficit balance of \$15,757 at June 30, 2016.

Recommendation - The City should investigate alternatives to eliminate these deficits and restore these funds to sound financial positions.

Response - The projects referred to straddle several fiscal years. The combined deficit was due to construction cost incurred prior to receipt of funds. The deficit will be eliminated by transfers from other funds.

Conclusion - Response accepted.





CITY OF AVOCA  
AVOCA, IOWA 51521

## **NEWS RELEASE**

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Avoca, Iowa.

The City's receipts totaled \$5,227,746 for the year ended June 30, 2016, a 7.6 percent increase from the prior year. The receipts included \$457,725 from property tax, \$910,479 from tax incremental financing, \$1,388,917 from charges for services, \$399,468 from operating grants, contributions and restricted interest, \$198,761 from capital grants, contributions and restricted interest, \$232,253 from local option sales tax, \$113,107 from other City taxes, \$4,460 from unrestricted interest on investments, \$1,285,760 from note proceeds and \$236,816 from sale of property.

Disbursements for the year totaled \$4,816,699, a 4.0 percent increase from the prior year, and included \$1,229,053 for debt service, \$667,811 for culture and recreation, and \$633,638 for capital projects. Disbursements for business-type activities totaled \$459,838.

The City increased its cash basis net position by \$411,047, or 16.7 percent from 2015. The increase is primarily due to refinancing notes and the sale of property.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's web site <http://auditor.iowa.gov/reports/reports.htm>.

